2. eCommerce Business Models and Concepts

Alexander Nikov

Teaching Objectives

• Identify the key components of eCommerce business models.
• Describe the major B2C business models.
• Describe the major B2B business models.
• Describe business models in other emerging areas of eCommerce.
• Explain the key business concepts and strategies applicable to eCommerce.

Video: How to use Twitter for business

How popular is Twitter?

- 271 million monthly active users.
- 500 million Tweets are sent per day.
- 78% of Twitter active users are on mobile.
- 77% of accounts are outside of the U.S.
Tweet Tweet: What’s Your Business Model?

• What characteristics or benchmarks can be used to assess the business value of a company such as Twitter?
• Have you used Twitter to communicate with friends or family? What are your thoughts on this service?
• What are Twitter’s most important assets?
• Which of the various methods described for monetizing Twitter’s assets do you feel might be most successful?

Outline

1. eCommerce Business Models
2. Major Business-to-Consumer (B2C) Business Models
4. Business Models in Emerging eCommerce Areas
5. How eCommerce changes business: Strategy, Structure, and Process

Components of eBusiness models

eCommerce Business Models

• Business model
  – Set of planned activities designed to result in a profit in a marketplace
• Business plan
  – Describes a firm’s business model
• eCommerce business model
  – Uses/leverages unique qualities of Internet and Web
8 Key Elements of a Business Model

<table>
<thead>
<tr>
<th>COMPONENTS</th>
<th>KEY QUESTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value proposition</td>
<td>Why should the customer buy from you?</td>
</tr>
<tr>
<td>Revenue model</td>
<td>How will you earn money?</td>
</tr>
<tr>
<td>Market opportunity</td>
<td>What marketspace do you intend to serve, and what is its size?</td>
</tr>
<tr>
<td>Competitive environment</td>
<td>Who else occupies your intended marketspace?</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>What special advantages does your firm bring to the marketspace?</td>
</tr>
<tr>
<td>Market strategy</td>
<td>How do you plan to promote your products or services to attract your target audience?</td>
</tr>
<tr>
<td>Organizational development</td>
<td>What types of organizational structures within the firm are necessary to carry out the business plan?</td>
</tr>
<tr>
<td>Management team</td>
<td>What kinds of experiences and background are important for the company’s leaders to have?</td>
</tr>
</tbody>
</table>

1. Value Proposition

- Why should the customer buy from you?
- Successful eCommerce value propositions:
  - Personalization/customization
  - Reduction of product search, price discovery costs
  - Facilitation of transactions by managing product delivery

2. Revenue Model

- How will the firm earn revenue, generate profits, and produce a superior return on invested capital?
- Major types:
  - Advertising revenue model
  - Subscription revenue model
  - Transaction fee revenue model
  - Sales revenue model
  - Affiliate revenue model
Advertising Revenue Model

- Web site that offers content, services and/or products also provides a forum for advertisements and receives fees from advertisers
- Example: Yahoo.com

Subscription Revenue Model

- Web site that offers users content or services charges a subscription fee for access to some or all of its offerings
- Examples:
  - Consumer Reports Online
  - Yahoo! Platinum

Ancestry.com Uses a Subscription Business Model

- Ancestry.com offers a variety of membership options for different subscription fees

Transaction Fee Revenue Model

- Company that receives a fee for enabling or executing a transaction
- Examples:
  - eBay.com
  - E-Trade.com
Sales Revenue Model

- Company derives revenue by selling goods, information, or services to customers
- Examples:
  - Amazon.com
  - LLBean.com
  - Gap.com

Affiliate Revenue Model

- Sites that steer business to an “affiliate” receive a referral fee or percentage of the revenue from any resulting sales
- Example:
  - MyPoints.com

Five Primary Revenue Models

<table>
<thead>
<tr>
<th>Revenue Model</th>
<th>Examples</th>
<th>Revenue Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>Yahoo</td>
<td>Fees from advertisers in exchange for advertisements</td>
</tr>
<tr>
<td>Subscription</td>
<td>WSJ.com, Consumerreports.org</td>
<td>Fees from subscribers in exchange for access to content or services</td>
</tr>
<tr>
<td>Transaction Fee</td>
<td>eBay, E*Trade</td>
<td>Fees (commissions) for enabling or executing a transaction</td>
</tr>
<tr>
<td>Sales</td>
<td>Amazon, LLBean, Gap, iTunes</td>
<td>Sales of goods, information, or services</td>
</tr>
<tr>
<td>Affiliate</td>
<td>MyPoints</td>
<td>Fees for business referrals</td>
</tr>
</tbody>
</table>
3. Market Opportunity

- What marketspace do you intend to serve and what is its size?
  - **Marketspace**: Area of actual or potential commercial value in which company intends to operate
  - **Realistic market opportunity**: Defined by revenue potential in each of market niches in which company hopes to compete
- Market opportunity typically divided into smaller niches

Marketspace and Market Opportunity in the Software Training Market

- **Instructor-Led Training**: $49 Billion
- **Small Business**: $19 Billion
- **Small Business**: $6 Billion
- **Fortune 500**: $30 Billion
- **Computer-Based Training**: $21 Billion

4. Competitive Environment

- Who else occupies your intended marketspace?
  - Other companies selling similar products in the same marketspace
  - Includes both direct and indirect competitors
- Influenced by:
  - Number and size of active competitors
  - Each competitor’s market share
  - Competitors’ profitability
  - Competitors’ pricing

Competitive Environment (cont’d)

- Direct competitors – companies that sell products or services that are very similar and into the same market segment
  - Example: Priceline.com and Travelocity.com
- Indirect competitors – companies that may be in different industries but that still compete indirectly because their products can substitute for one another
  - Example: CNN.com and ESPN.com
5. Competitive Advantage

• What special advantages does your firm bring to the marketspace?
  – Is your product superior to or cheaper to produce than your competitors’?

• Important concepts:
  – Asymmetries
  – First-mover advantage
  – Unfair competitive advantage
  – Leverage
  – Perfect markets

Competitive Advantage (cont’d)

• Asymmetries - when one participant in a market has more resources than others
• First mover advantage – results from a firm being first into a marketplace
• Unfair competitive advantage – occurs when one firm develops an advantage based on a factor that other firms cannot purchase
• Companies leverage their competitive assets when they use their competitive advantages to achieve more advantage in surrounding markets

6. Market Strategy

• How do you plan to promote your products or services to attract your target audience?
  – Details how a company intends to enter market and attract customers
  – Best business concepts will fail if not properly marketed to potential customers

7. Organizational Development

• What types of organizational structures within the firm are necessary to carry out the business plan?
• Describes how firm will organize work
  – Typically divided into functional departments
  – As company grows, hiring moves from generalists to specialists
8. Management Team

- What kinds of experiences and background should the company’s leaders have?
  - Employees are responsible for making the business model work
  - Strong management team gives instant credibility to outside investors
- A strong management team:
  - Can make the business model work
  - Can give credibility to outside investors
  - Has market-specific knowledge
  - Has experience in implementing business plans

Raising Capital

- Seed capital
- Traditional sources
  - Incubators
  - Commercial banks
  - Angel investors
  - Venture capital firms
  - Strategic partners
- Crowdfunding
  - JOBS Act

Categorizing eCommerce Business Models

- No one correct way
- We categorize business models according to:
  - eCommerce sector (B2C, B2B, C2C)
  - Type of eCommerce technology; i.e., m-commerce
- Similar business models appear in more than one sector
- Some companies use multiple business models; e.g., eBay

Outline

1. eCommerce Business Models
2. Major Business-to-Consumer (B2C) Business Models
4. Business Models in Emerging eCommerce Areas
5. How eCommerce changes business: Strategy, Structure, and Process
What is B2C eCommerce?

- **B2C** (Business-to-Consumer) is basically a concept of online marketing and distributing of products and services over the Internet. It is a natural progression for many retailers or marketer who sells directly to the consumer. The general idea is, if you could reach more customers, service them better, make more sales while spending less to do it, that would be the formula of success for implementing a B2C eCommerce infrastructure.
- For the consumer, it is relatively easy to appreciate the importance of eCommerce. Why waste time fighting the very real crowds in supermarkets, when, from the comfort of home, one can shop on-line at any time in virtual Internet shopping malls, and have the goods delivered home directly.

Who should use B2C eCommerce?

- **Manufacturers** - to sell and to retail the business buyers
- **Distributors** - to take orders from the merchants they supply
- **Publisher** - to sell subscriptions and books
- **Direct Sales Firms** - as another channel to reach the buyers
- **Entertainment Firms** - to promote new products and sell copies
- **Information Provider** - to take payment for downloaded materials
- **Specialty Retailers** - Niche marketers of products ranging from candles, coffees, specialty foods, books use it to broaden their customer reach.
- **Insurance Firms** - On-line rate quotes and premium payments have made it easier for this industry to attract and retain customers. In fact, virtually any business that can deliver its products or provide its services outside its doors is a potential user.
B2C Models: E-tailer

- Online version of traditional retailer
- Revenue model: Sales
- Variations:
  - Virtual merchant
  - Bricks-and-clicks
  - Catalog merchant
  - Manufacturer-direct
- Low barriers to entry

B2C Models: Community Provider

- Provide online environment (social network) where people with similar interests can transact, share content, and communicate
  - Examples: Facebook, LinkedIn, Twitter, Pinterest
- Revenue models:
  - Typically hybrid, combining advertising, subscriptions, sales, transaction fees, affiliate fees

B2C Models: Content Provider

- Digital content on the Web
  - News, music, video, text, artwork
- Revenue models:
  - Use variety of models, including advertising, subscription; sales of digital goods
- Variations:
  - Syndication
  - Web aggregators

B2C Business Models: Portal

- Search plus an integrated package of content and services
- Revenue models:
  - Advertising, referral fees, transaction fees, subscriptions for premium services
  - Variations:
    - Horizontal/general
    - Vertical/specialized (vortal)
    - Search
B2C Models: Transaction Broker

• Process online transactions for consumers
  – Primary value proposition—saving time and money
• Revenue model:
  – Transaction fees
• Industries using this model:
  – Financial services
  – Travel services
  – Job placement services

B2C Models: Market Creator

• Create digital environment where buyers and sellers can meet and transact
  – Examples:
  • Priceline
  • eBay
• Revenue model: Transaction fees
• Sharing economy (mesh economy): platforms that allow people to sell services
  – Examples: Uber, Airbnb

B2C Models: Service Provider

• Online services
  – e.g., Google: Google Maps, Google Docs, and so on
• Value proposition
  – Valuable, convenient, time-saving, low-cost alternatives to traditional service providers
• Revenue models:
  – Sales of services, subscription fees, advertising, sales of marketing data

Outline

1. eCommerce Business Models
2. Major Business-to-Consumer (B2C) Business Models
4. Business Models in Emerging eCommerce Areas
5. How eCommerce changes business: Strategy, Structure, and Process
Advantages of eCommerce for B2B Businesses

B2B Business Models

- Net marketplaces
  - E-distributor
  - E-procurement
  - Exchange
  - Industry consortium
- Private industrial network
  - Single firm
  - Industry-wide

B2B Models: E-distributor

- Version of retail and wholesale store, MRO goods and indirect goods
- Owned by one company seeking to serve many customers
- Revenue model: Sales of goods
- Example: Grainger.com

<table>
<thead>
<tr>
<th>TABLE 2.4</th>
<th>B2B BUSINESS MODELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUSINESS MODEL</td>
<td>EXAMPLES</td>
</tr>
<tr>
<td>(1) NET MARKETPLACE</td>
<td></td>
</tr>
<tr>
<td>E-distributor</td>
<td>Grainger.com, Partstore.com</td>
</tr>
<tr>
<td>E-procurement</td>
<td>Ariba, PerfectCommerce</td>
</tr>
<tr>
<td>Exchange</td>
<td>OceanConnect</td>
</tr>
<tr>
<td>Industry Consortium</td>
<td>Exostar, Elenica</td>
</tr>
<tr>
<td>(2) PRIVATE INDUSTRIAL NETWORK</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Walmart, Procter &amp; Gamble</td>
</tr>
</tbody>
</table>
**B2B Models: E-procurement**

- Creates digital markets where participants transact for indirect goods
  - B2B service providers, application service providers (ASPs)
- Revenue model:
  - Service fees, supply-chain management, fulfillment services
- e.g., Ariba

**B2B Models: Exchanges**

- Electronic digital marketplace where suppliers and purchasers conduct transactions
  - Usually owned by independent firms whose business is making a market
  - Usually serve a single vertical industry
- Revenue model: Transaction, commission fees
- Create powerful competition between suppliers
- Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically

**B2B Models: Industry Consortia**

- Industry-owned vertical digital marketplace that serve specific industries (e.g., automobile, chemical)
- More successful than exchanges
  - Sponsored by powerful industry players
  - Strengthen traditional purchasing behavior
- Revenue model: Transaction, commission fees
- e.g., Exostar

**Private Industrial Networks**

- Digital network used to coordinate among firms engaged in business together
- Typically evolve out of company’s internal enterprise system
- Example: Walmart’s network for suppliers
- Cost absorbed by network owner and recovered through production and distribution efficiencies
Applications: Dell business model

Orders for computers are placed with Dell by telephone or through the Internet.

Through a process just-in-time (or lean) manufacturing, waste is reduced and productivity improved by only having the required inventory on hand when it is actually needed for manufacturing.

This reduces lead times and set up times for building a computer.

Dell only orders the parts for a computer when it has a firm (and in the case of non-corporate orders, prepaid) order.

Dell operates with little in-process and no finished goods inventory: Products are shipped as soon as they are manufactured.

This approach also enables Dell to forego having brick and mortar store fronts with inventory that must be kept on the books or that might become obsolete, thereby significantly reducing overhead.

Items that are not built by Dell are shipped directly to the customer by the manufacturer.

These features help Dell to reduce the costs of production and sales.

This process allows Dell to custom design systems for its customer within certain parameters as well as to offer a range of items rather than a single system.

Applications: Cisco business model

Cisco Business Model

This successful network communications manufacturer receives approximately 90% of its orders over the Internet.

The orders are routed to contract electronics manufacturers who build the products to Cisco’s specifications.

Not only are the majority of Cisco’s orders received over the web, but 70% to 80% of their customer service requests are also dealt with online.
Outline

1. eCommerce Business Models
2. Major Business-to-Consumer (B2C) Business Models
4. Business Models in Emerging eCommerce Areas
5. How eCommerce changes business: Strategy, Structure, and Process

Business Models in Emerging eCommerce Areas

- Consumer-to-consumer (C2C)
  - Examples: eBay, Half.com

- Peer-to-peer (P2P)
  - Examples: The Pirate Bay, Cloudmark

- M-commerce:
  - eCommerce models using wireless technologies
  - Technology platform continues to evolve
  - In the United States, demand still highest for digital content like ring tones

Table 2.5: E-Commerce Enablers

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM, HP, Dell, Oracle</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>Microsoft, Red Hat, Linux, Apple</td>
<td>Hardware: Web Servers</td>
</tr>
<tr>
<td>Amazon Web Services, Rackpace, Google, IBM</td>
<td>Software: Server Software</td>
</tr>
<tr>
<td>Akamai, LiveLight</td>
<td>Cloud Providers</td>
</tr>
<tr>
<td>GoDaddy, Network Solutions, Octobe</td>
<td>Domain Name Registration</td>
</tr>
<tr>
<td>Akamai, LiveLight</td>
<td>Content Delivery Networks</td>
</tr>
<tr>
<td>GSI Commerce, Fy, Oracle</td>
<td>Site Design</td>
</tr>
<tr>
<td>GSI Commerce, Magento, IBM, AIG, Demodemand</td>
<td>E-commerce Platform Providers</td>
</tr>
<tr>
<td>Apple, Samsung, Google</td>
<td>Mobile Commerce Hardware Platform</td>
</tr>
<tr>
<td>Apple, Google, Adobe, Unisamnet, Unbound Commerce, Branding Board</td>
<td>Mobile Commerce Software Platform</td>
</tr>
<tr>
<td>Adobe, Apple, Easy 2 Technologies, Channel Advisor</td>
<td>Streaming, Rich Media, Online Video</td>
</tr>
<tr>
<td>VeriSign, Checkpoint, Gerofruit, Entrust, EM-C, Thieme, McAAre</td>
<td>Security and Encryption</td>
</tr>
<tr>
<td>PayPal, Authorize.net, Chase Paymentech, Cybersource</td>
<td>Payment Systems</td>
</tr>
<tr>
<td>Components Commerce, Shopware, Keynote Systems</td>
<td>Web-Performance Management</td>
</tr>
<tr>
<td>Channel Advisor, Mercant, CPO Strategy</td>
<td>Customer Relationship Management</td>
</tr>
<tr>
<td>JDA Software, GSI Commerce, Stone Edge</td>
<td>Order Management</td>
</tr>
<tr>
<td>JDA Software, GSI Commerce, CommerceHub</td>
<td>Fulfillment</td>
</tr>
<tr>
<td>Buffalo, HostSite, SocialFlow</td>
<td>Search Engine Marketing</td>
</tr>
<tr>
<td>Inceptor, Channel Advisor, River-Kaufman Group</td>
<td>E-mail Marketing</td>
</tr>
<tr>
<td>Constant Contact, Examiner ChealseMail, Brito Software, MailChimp</td>
<td>Affiliate Marketing</td>
</tr>
<tr>
<td>Commission Junction, Google Affiliate Network, LinkShare</td>
<td>Customer Reviews and Forums</td>
</tr>
<tr>
<td>BizRate, PowerReviews, Bizzrate</td>
<td>Live-Chat/Click-to-Call</td>
</tr>
<tr>
<td>LivePerson, Billed, Oracle</td>
<td>Web-Analytics</td>
</tr>
</tbody>
</table>
| Google Analytics, Adobe Omniture, IBM Coettometrics | E-Commerce Enablers: The Gold Rush Model

- eCommerce infrastructure companies have profited the most:
  - Hardware, software, networking, security
  - eCommerce software systems, payment systems
  - Media solutions, performance enhancement
  - CRM software
  - Databases
  - Hosting services, etc.
How the Internet and the Web Change Business

- eCommerce changes industry structure by changing:
  - Basis of competition among rivals
  - Barriers to entry
  - Threat of new substitute products
  - Strength of suppliers
  - Bargaining power of buyers
Industry Value Chains

- Set of activities performed by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Internet reduces cost of information and other transactional costs
- Leads to greater operational efficiencies, lowering cost, prices, adding value for customers

Firm Value Chains

- Activities that a firm engages in to create final products from raw inputs
- Each step adds value
- Effect of Internet:
  - Increases operational efficiency
  - Enables product differentiation
  - Enables precise coordination of steps in chain
Firm Value Webs

- Networked business ecosystem
- Uses Internet technology to coordinate the value chains of business partners
  - Within an industry
  - Within a group of firms
- Coordinates a firm’s suppliers with its own production needs using an Internet-based supply chain management system

Business Strategy

- Plan for achieving superior long-term returns on capital invested: that is, profit
- Five generic strategies
  - Product/service differentiation
  - Cost competition
  - Scope
  - Focus
  - Customer intimacy
### eCommerce Technology and Business Model Disruption

- Disruptive technologies
- Digital disruption
- Sustaining technology
- Stages
  - Disruptors introduce new products of lower quality
  - Disruptors improve products
  - New products become superior to existing products
  - Incumbent companies lose market share

### Table 2.7: Business Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>Making products and services unique and different in order to distinguish</td>
<td>Warby Parker (Vintage-inspired prescription eyeglasses)</td>
</tr>
<tr>
<td></td>
<td>them from those of competitors</td>
<td></td>
</tr>
<tr>
<td>Cost competition</td>
<td>Offering products and services at a lower cost than competitors</td>
<td>Walmart.com</td>
</tr>
<tr>
<td>Scope</td>
<td>Competing in all markets around the globe, rather than merely in local,</td>
<td>Apple iDevices</td>
</tr>
<tr>
<td></td>
<td>regional, or national markets</td>
<td></td>
</tr>
<tr>
<td>Focus/market niche</td>
<td>Competing within a narrow market or product segment</td>
<td>Bonobos.com (Men’s clothing)</td>
</tr>
<tr>
<td>Customer intimacy</td>
<td>Developing strong ties with customers</td>
<td>Amazon; Netflix</td>
</tr>
</tbody>
</table>